ROBERTS, G. E. *Property rights and trade rivalries.* (New York: National City Bank. 1917. Pp. 21.)

ZIMMERMANN, E. W. *Foreign trade and shipping.* (New York: Alexander Hamilton Inst. 1917. Pp. xviii, 356.)

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Accounting, Business Methods, Investments, and the Exchanges

Accounting Principles. By THOMAS W. MITCHELL. Modern Business, Vol. IX. (New York: Alexander Hamilton Institute. 1917. Pp. xix, 396.)

The book consists of twenty chapters, a table of contents and an index. Chapter 1 is devoted to a historical survey of accounting; chapters 2 and 3, to the theory of double entry bookkeeping; 5-7, to classification of accounts and description of the different accounting books and records; 8, to valuation for accounting purposes; 9, the trial balance; 10-13, discussion of assets and income accounts and financial statements; 14, opening and closing entries of a ledger; 15-16, labor saving devices and checks for accuracy; 17-19, interest computations and depreciation; 20, concrete illustration of opening books, recording transactions and showing results of operation.

There are several glaring shortcomings which are scarcely justified even in a book intended primarily for business readers. (1) Reference is made repeatedly to functional accounting, and the fundamental ideas of the book, especially those of valuation and depreciation, involve the functional view; but there is nowhere a clear presentation of the concept, much less an outline of classification based upon it. (2) In functional cost accounting, the so-called work order system of determining property and expense charges is practically an indispensable means, and it is extensively used by corporations; but it is not mentioned in this book. (3) In a chapter devoted to labor devices, there is not even a passing reference to the great tabulating machines like the Powers and Hollerith, which are essential to any extensive functional classification. (4) Although factory accounts are used in the chapter on application of principles, there is no systematic presentation of factory cost accounting, in spite of the functional cost view underlying most of the discussion.

In the preface, the author mentions his critical analyses of accounting principles in the light of economic fundamentals. It is true that the book shows clearer economic insight than the average treatise on accounting, but it is no less categorical and emphatic. The claim to new ideas introduced in accounting literature scarcely requires introductory notice. The "turned and unturned capital" as a concept is old; it has probably never been offered definitely as the basis of accounting because it would be arbitrary to make it so. The "allocated cost" idea in depreciation was excellently presented by Leake in his book on depreciation; it is fairly common property among teachers of accounting; it has been discussed by the reviewer in his classes without thought of originality. The author's view of cash discounts is merely an adaptation of Fetter's theory of value, and it was extensively discussed by the reviewer in the *Journal of Accountancy* in April and May, 1913.

A dogmatic positivism runs throughout the book wherever real principles are involved. It appears in the "turned and unturned capital" idea as the basis of accounting, the presentation of debits and credits, the discussion of valuation, the statement of depreciation and the idea of cash discounts. It is clearly impossible to enter here into a discussion of all these matters. But it may be worth while briefly to consider the treatment of depreciation.

The author's general view of depreciation is interesting, but not new, except perhaps as to terminology; but it is established emphatically instead of analytically. He considers depreciation as a matter of cost allocation and not value determination. He presents the entire purpose of depreciation accounting as the distribution to operation of capital costs which are periodically reincurred, instead of the more common view of the adjustment of values and the reservation of income as values are consumed in production. If the purpose of an accounting system is definitely to show functional costs, the author's view is correct; but not necessarily, for even the definition of costs would be a matter of specific business policy and not absolute principle. But may there not be other purposes than the showing of functional costs? Is not purpose a matter of operating policy rather than categorical principle? Why not, if business reasons demand, attempt to show values instead of costs?

But suppose we admit, as the reviewer does, that cost allocation is the more desirable view for ordinary business purposes, again the

author's particular method for determining the allocation is dogmatically asserted as solely correct in principle. His method may be best explained by use of his own illustration. He assumes the purchase of a new machine with an expected life of five years, with an equal annual operating efficiency, bringing a return of $1,000 a year. The capital cost is viewed as the present value of the future returns—$1,000 a year for five years discounted on a 15 per cent basis. The total cost was thus $3,352.15, representing $869.56 for the first year's discounted return of $1,000, $756.14 for the second year, etc. Now the author would distribute the depreciation over the five years, according to the above constituent parts of the total cost. He calls this the "allocated cost principle."

Admit that the first cost represents roughly the discounted value of expected future returns, why must a particular method of allocation follow as a principle? Why not make the distribution as well or better according to the value of the returns as they mature instead of their value when the machine was first purchased? Where is the absolute necessity in the latter procedure? But if we forget principle and consider desirable operating policy, is it reasonable to diminish materially the depreciation charges with the passage of time? Why charge considerably larger costs in proportion to production during the earlier than the later years of a capital instrument? Would it not usually be better to make relatively an even annual distribution?

If we adopt the cost allocation view, which is a matter of policy and not principle, we have then to determine further the policy of how specifically to make the distribution. Where is there any real principle involved? Various methods may be used, each having its special advantages and disadvantages. In general, there is a threefold choice: (1) there may be an even annual assignment, according to the so-called straight-line method; (2) an increasing annual assignment, according to the sinking-fund method; (3) a decreasing assignment according to the author's special "principle," or according to the better known balance-of-cost method. We are dealing here with a special aspect of joint costs; and the specific allocation of joint costs is, of course, always a more or less arbitrary matter.

JOHN BAUER.

Princeton University.